



## Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Matt Cano  
Margaret McCahan

**SUBJECT:** CULTURAL FACILITIES CAPITAL REHABILITATION NEEDS **DATE:** May 7, 2019

Approved

Date

5-8-19

### **BACKGROUND**

As part of Item 3.7 Report on the Status of the City's Deferred Maintenance and Infrastructure Backlog Report on the March 12, 2019 City Council Agenda, the Mayor asked staff to provide an analysis of the level of capital investment required over a five-year period to address the deferred capital maintenance needs of the City's six cultural facilities not operated by Team San Jose: San José Museum of Art, Tech Museum of Innovation, Hammer Theatre, History San José, School of Arts & Culture at Mexican Heritage Plaza, and the Children's Discovery Museum. These facilities contribute to San José's economy and create opportunities to enjoy diverse cultural experiences.

### **ANALYSIS**

The Mayor's March Budget Message for Fiscal Year 2014-2015, as approved by the City Council, directed staff to set aside any growth of Transient Occupancy Tax (TOT) proceeds received in the General Fund above the amount received in 2013-2014 into a Cultural Facilities Capital Maintenance Reserve. This reserve would then be used to pay for capital rehabilitation at the City's six cultural facilities named above. With City Council's approval of the Mayor's March Budget Message for 2017-2018, the TOT set aside was eliminated and instead an annual amount of \$450,000 from the General Fund was established to help fund cultural facility capital maintenance.

From 2014-2015 through 2018-2019, the City has allocated approximately \$6.4 million for capital rehabilitation and maintenance at the City's cultural facilities. For 2018-2019, the Cultural Facilities Capital Maintenance Reserve totals \$3.1 million.

May 7, 2019

**Subject: Cultural Facilities Capital Rehabilitation Needs**

Page 2

The City's annual 2019 Deferred Maintenance and Infrastructure Backlog (DMIB) Report documents the unfunded infrastructure needs for all City facilities. In the 2019 DMIB report, the overall 5-year CIP need for cultural facilities was \$12.9 million. When compared to the available resources of the existing reserve of \$3.1 million and the annual allocation of \$450,000 ( $5 \times \$450,000 = \$2.25$  million), the amount of capital needs unfunded over a five-year period totaled \$7.55 million. It is important to note that the 5-year capital needs were based on professional condition assessments, staff's assessments, and input from facility operators. The DMIB Report for the six cultural facilities is a dynamic process and is periodically updated as new information becomes available. Since publication of the DMIB, as new information about facilities' conditions became known, the 5-year CIP need recently grew from \$12.9 million to \$16.9 million – primarily attributable to additional HVAC improvements and chiller replacements at the Hammer Theatre (\$2.1 million) and HVAC improvements to the Children's Discovery Museum (\$800,000) – increasing the unfunded need to \$11.53 million.

The 2019-2020 Proposed Operating Budget employs two strategies to significantly reduce this funding gap. First the Base Budget ongoing allocation of \$450,000 toward the Cultural Facilities Capital Maintenance Reserve was increased from \$450,000 to \$850,000 in acknowledgement of the persistent gap identified in the DMIB. Second, to substantially address the identified capital investment needs for 2019-2020, the Administration recommends allocating \$5.75 million from the General Fund. These actions reduce the unfunded need over the next five years to approximately \$3.7 million, which corresponds to the amount at the lower right of the table below.

### Cultural Facilities Capital Maintenance Needs Five-Year Source and Use of Funds

	Proposed 2019-2020	Projected 2020-2021	Projected 2021-2022	Projected 2022-2023	Projected 2023-2024
<b>SOURCE OF FUNDS</b>					
Cultural Facilities Cap Maint Reserve Carryover	3,135,849	2,560,849	10,849	(639,151)	(2,689,151)
General Fund Contribution for 2019-2020 Projects	5,750,000				
General Fund Contribution to Cultural Facilities Maintenance Reserve	850,000	850,000	850,000	850,000	850,000
<b>TOTAL SOURCE OF FUNDS</b>	<b>9,735,849</b>	<b>3,410,849</b>	<b>860,849</b>	<b>210,849</b>	<b>(1,839,151)</b>
<b>USE OF FUNDS</b>					
Children's Discovery Museum	550,000	800,000	600,000	1,000,000	300,000
San José Museum of Art	100,000	100,000	100,000	1,000,000	500,000
Hammer Theatre	925,000	1,000,000	500,000	300,000	250,000
The Tech Museum	5,400,000	1,000,000	100,000	250,000	400,000
History San José	150,000	250,000	100,000	100,000	200,000
Mexican Heritage Plaza	50,000	250,000	100,000	250,000	250,000
<b>Total Expenditures</b>	<b>7,175,000</b>	<b>3,400,000</b>	<b>1,500,000</b>	<b>2,900,000</b>	<b>1,900,000</b>
Cultural Facilities Capital Maint Reserve	2,560,849	10,849	(639,151)	(2,689,151)	(3,739,151)
<b>TOTAL USE OF FUNDS</b>	<b>9,735,849</b>	<b>3,410,849</b>	<b>860,849</b>	<b>210,849</b>	<b>(1,839,151)</b>

May 7, 2019

**Subject: Cultural Facilities Capital Rehabilitation Needs**

Page 3

It is important to note that the table above assumes an additional \$575,000 in 2019-2020 above the amount currently included in the 2019-2020 Proposed Capital Budget for the Hammer Theatre: \$500,000 to replace one of two chillers (the second chiller would tentatively be replaced in 2021-2022) and \$75,000 to begin the process of replacing and updating all HVAC control systems (total project cost of \$1.1 million). As these recent additions are still under analysis – and as the Administration is evaluating savings within other cultural facilities capital projects completing in 2018-2019 – a recommendation to allocate funding from the Cultural Facilities Capital Maintenance Reserve to these projects will be brought forward as part of the 2019-2020 Rebudget/Clean-Up Manager's Budget Addendum scheduled for release at the end of this month.

The Administration will continue to closely monitor the status of the Cultural Facilities Maintenance Reserve and the capital needs of the City's cultural facilities, bringing forward recommendations as necessary to ensure that the City's obligations to maintain and rehabilitate these facilities are met. For more information on the individual projects for cultural facilities in 2019-2020, please see the Municipal Improvements section of the 2019-2020 Proposed Capital Budget and 2020-2024 Capital Improvement Program, as well as the City-Wide General Fund Capital, Transfers and Reserves section of the 2019-2020 Proposed Operating Budget.

For reference, the City has developed and implemented a Capital Replacement and Maintenance Project Approval Process for Cultural Facilities (attached). The process identifies eligible types of projects and proposes a method by which they will be prioritized. On an annual basis, the City coordinates with the operators of these facilities to identify these capital needs. Staff will continue to conduct professional and staff assessments for future projects and prioritization.

Available capital funds will be pooled as needed for their highest and best use per the considerations for project prioritization listed below:

1. Fulfilling the City's capital replacement and maintenance contractual obligations;
2. Use of matching funds, or the ability to leverage alternative funding sources; and
3. Preservation of the operations of the cultural facility

### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office.

/s/  
MATT CANO  
Director of Public Works

  
MARGARET MCCAHAN  
Budget Director

For more information, please contact Joe Garcia, Deputy Director, Public Works at (408) 535-1298.

Attachment: Capital Replacement and Maintenance Project Approval Process for Cultural Facilities

**ATTACHMENT**  
**CAPITAL REPLACEMENT AND MAINTENANCE**  
**PROJECT APPROVAL PROCESS FOR CULTURAL FACILITIES**

**Purpose:** To establish a process to prioritize and approve cultural facilities' capital replacement and maintenance projects.

**Definitions:**

- Cultural Facilities (6) - San Jose Museum of Art, Hammer Theatre, Children's Discovery Museum, The Tech Museum of Innovation, Mexican Heritage Plaza and History San Jose (HSJ) Facilities (including Pacific Hotel, Fallon House, Peralta Adobe and HSJ miscellaneous facilities.
- Maintenance - Deferred maintenance of facility structure, including interior and exterior
- O&M Agreements - Existing Operations and Maintenance (O&M) Agreements between the cultural facilities' nonprofit operators and the City
- Capital Replacements- Major electrical, mechanical, and plumbing equipment; and the exterior shell
- Stakeholders - Cultural facility operators' senior management, Office of Cultural Affairs, Department of Public Works, the City Manager's Budget Office, and private consultants used to evaluate equipment and facility conditions

**Process:**

Annually, the Department of Public Works will coordinate with the City Manager's Budget Office and the Cultural Facility Operators on the following:

Potential Project Identification

As part of the annual development of the City's Capital Budget, the Department of Public Works Facilities Management Division will coordinate with the six Cultural Facility Operators to acquire a list of potential capital replacement projects. Upon receipt of this list, compare updated life cycle cost and maintenance oversight reports for cultural facilities' systems and capital needs to confirm project validity.

Project Selection

Projects will be prioritized based on available funding and the considerations outlined below:

1. Fulfilling the City's Capital Replacement and Maintenance obligation - O&M Agreements obligate the City to fund and execute Capital Replacements (prioritizing Health and Safety related equipment) and, in some cases, Maintenance (much of which is deferred).
2. Use of Matching Funds - If a Cultural Facility operator can provide matching funds and City funds can provide gap funding, depending on the project's urgency, those projects may be given higher consideration than those Capital Replacements or improvements solely funded by the City.
3. Preservation of Operations - Facility equipment that risks the continuous operation of the cultural facilities should be a priority. Mission critical projects will be prioritized.

Communication of Project Selection(s)

The projects recommended through this selection process will be incorporated into the Municipal Improvements section of the Proposed Capital Budget for City Council's review and approval.